



**Testimony of Dee Vaughan
President
National Corn Growers Association**

Before the House Committee on Agriculture

**Washington, DC
May 19, 2004**

Good morning. Chairman Goodlatte, Ranking Member Stenholm and members of the Committee. My name is Dee Vaughan. I am a farmer from Dumas, Texas, and President of the National Corn Growers Association. I would like to thank the Committee for giving me the opportunity to testify and speak today regarding trade negotiations important to corn producers.

The National Corn Growers Association (NCGA) was founded in 1957 and represents more than 33,000 dues-paying corn growers from 48 states. The Association also represents the interests of more than 350,000 farmers who contribute to corn checkoff programs in 19 states.

NCGA's mission is to create and increase opportunities for corn growers in a changing world and to enhance corn's profitability and use. Trade is vital to the future of corn growers as we search for new markets and provide grain that is more abundant and of better quality.

Market Outlook

One out of every five rows of corn in the United States is exported, and exports of value-added corn and co-products add to the importance of foreign markets for U.S. corn producers. In 2003, U.S. corn exports totaled 51 million metric tons with a value of \$4.7 billion. This represents approximately 20 percent of total domestic production, with the U.S. accounting for nearly 65 percent of worldwide production last year (see attached charts). Our two closest competitors in the international marketplace are Argentina and China with 12 and 10 percent of world production respectively.

I am pleased to report that the United States Department of Agriculture (USDA) recently estimated U.S. corn exports would increase in the 2003/2004 marketing year to 2.05 million bushels (52.08 million metric tons). U.S. corn exports are up 50 million bushels, largely because of less competition from China. Although global coarse grain use is up 8 million tons, global coarse grain imports are down just over one million tons. U.S. and Argentine corn exports are expected to expand while those of China and Brazil decline.

Across the country, corn farmers are enjoying the benefits of a commodity boom. Despite the good news, we need to ask ourselves could prices go higher, how long will this price strength last and how do we ensure farmers position themselves favorably in a competitive international marketplace.

NCGA believes trade is a vital component in the farm economy and supports trade agreements that will open markets for U.S. farmers and increase market development opportunities

throughout the world. We reaffirm our commitment to an aggressive trade agenda. However, farmers and ranchers are already expressing frustration with free trade agreements and import sensitive commodities are rallying against efforts to lower tariffs and expand market opportunities. In order to maintain the confidence of grassroots producers we need to evaluate our successes and failures. We need to use the lessons learned constructively to achieve comprehensive and beneficial agreements. For corn growers, Mexico represents our greatest success and failure of U.S. trade policy.

Mexico Sweetener Dispute

In the ten years since the North American Free Trade Agreement (NAFTA) passed the Congress, U.S. corn exports to Mexico have grown from 1.1 million metric tons in 1992 to 5.6 million metric tons in 2003. Mexico is now our second largest export market as the domestic livestock industry in Mexico continues to grow.

However, as you know, the U.S. corn industry has been embroiled in a trade dispute with Mexico for more than seven years on high fructose corn syrup (HFCS). This sweetener dispute has exacted a heavy toll on our sector.

Mexico is a market with an estimated potential of two million metric tons of HFCS, or half of the supply of sweeteners in that economy. This equates to more than 133 million bushels of corn grown on over 945 thousand acres annually. However, that production opportunity has been lost for America's corn farmers and refiners. Shortly after the NAFTA was implemented, we experienced increased market access to Mexico. And then our troubles on HFCS began and have only intensified since.

In 1997, Mexico implemented an illegal antidumping investigation. The United States won five separate World Trade Organization (WTO) and NAFTA panel rulings against Mexico. When Mexico finally lifted its dumping duties on U.S. HFCS exports, it simply substituted one illegal measure for another.

On January 1, 2002, Mexico implemented a 20 percent tax on all beverages sold in Mexico that are not sweetened with its own cane sugar. This highly discriminatory tax was aimed squarely at our HFCS exports and the production of HFCS from U.S. corn by U.S. owned plants in Mexico.

The so-called soda tax shut down our top HFCS export market overnight. And that was more than two years ago. Never before in recent U.S. history has an industry been shut out of its top export market for this extensive period of time.

NCGA is now engaged in private sector discussions with the Corn Refiners Association (CRA), the U.S. sugar industry and the Mexican sugar industry to craft a proposal for our respective governments that we hope will resolve this dispute and restore trade in HFCS with Mexico.

At the same time, we are pursuing our rights through a WTO dispute settlement against Mexico's illegal soda tax. WTO consultations were held with Mexico just last week. We are confident that Mexico's tax will be found to be in violation of the important WTO principle of national treatment.

We urge the U.S. Trade Representative (USTR) to expedite the process to enable an interim ruling of the WTO panel before the end of the year.

Mr. Chairman, we appreciate your continuing support for a solution to this issue and look forward to working with you and your colleagues to resolve this dispute once and for all.

China

In recent years, U.S. grain producers and exporters have had serious concerns about China's problems living up to the commitments it made upon joining the WTO, specifically in the areas of export subsidies and administration of tariff rate quotas.

Of most concern was China's use of export subsidies to ship major volumes of corn into markets such as South Korea, Malaysia, Indonesia, Japan and Taiwan. Those exports came mostly at the expense of the U.S. corn industry. However, the situation has abated recently with declining exports due largely to China's large drawdown in stocks and surges in industrial use (for production of starch, alcohol, and other products). Rising domestic consumption and lower stocks continues to put pressure on prices in the major producing provinces.

It is too early to tell if/when China will become a net importer, but the implementation of policies that will abolish the floor price for corn purchases and moves towards a more open corn trading environment are encouraging. We continue to experience problems with the grain tariff rate quota (TRQ) allocation under the WTO accession agreement, but progress is being made and the Chinese Government did release a list of TRQ recipients this year.

World Trade Organization

NCGA still believes that future efforts to successfully liberalize international agriculture markets hinges on the current WTO negotiations. Exports and trade liberalization are vital to global economic development and to U.S. agriculture's continued profitability. We applaud the efforts of Ambassadors Zoellick and Johnson and remain hopeful negotiations will produce a framework by July.

For corn growers, key to the success of this round is the extent to which developing country markets are fully integrated into the global trading system. The fastest growing markets are in developing countries, where an emerging middle class has increased purchasing power and is consuming more and higher quality foods. The U.S. farmer has long known that the U.S. feed grain sector benefits when citizens in developing countries improve their standard of living – higher incomes translate into higher demand for protein products, which results in additional demand for feed grains in those countries to produce meat, milk and eggs.

But lowering those barriers will not only provide a boost for U.S. feed grain exports, but developing countries will benefit from reforms that enhance their own competitiveness and income growth potential as well. High tariffs in developing countries curtail economic activity and investment generated by livestock production and processing. Additionally, high tariffs limit trade among developing countries, thus limiting their own opportunities to capitalize on their comparative advantages through export opportunities. After all, it is the developing countries which are going to represent the largest share of consumption growth over the next decade – not only for the U.S. producer to fulfill, but also their developing country neighbors.

Regardless of the approach ultimately agreed to for lowering tariffs, developing countries need to be full participants and meaningfully liberalize import tariffs in order to facilitate trade. They cannot retrench behind rhetoric and ignore the need and benefits of liberalization. Higher tariffs not only hurt exporting countries but agricultural producers around the globe.

One example is India. Recently thought of as one of the greatest future export opportunities for U.S. feed grains, the imposition of a 15 percent tariff on corn in 2000 has led to the complete cessation of imports. Without an agreement that lowers this tariff and expands the existing 500,000 metric ton TRQ in India, the U.S. feed grain producer will have to forgo access over the next decade to 15 percent of the world's population. On the other hand, India's poultry industry will not have the opportunity to fully develop its potential because of continuing high costs of production.

The Doha round must not miss this opportunity to forward trade liberalization and the process of reform, in both developed and developing countries. If delayed, the next opportunity for realizing the benefits of a more open trading system will not be realized for another generation. We must do all we can to ensure a successful outcome of the Doha round on agriculture – not only for U.S. producers, but for consumers around the world.

Perhaps the most sensitive topic for U.S. producers will be domestic support. A successful agreement will ensure harmonization of levels among developed countries and shift levels away from trade distorting mechanism to green box alternatives. Even with lower tariffs, international competition in feed grains will not be fair if U.S. farmers are denied an adequate safety net.

As we have stated in the past, a final agreement needs to provide Congress with the ability to construct a farm program that meets our domestic objectives while complying with international agreements. Negotiators must ensure maximum flexibility to preserve the farm safety-net while at the same time providing an environment where U.S. producers are competitive.

The NCGA believes a national farm program can be constructed that is green box compliant while meeting the same objectives provided in current law. This was and remains a stated objective of NCGA and formed the foundation of our proposal to Congress three years ago prior to farm bill reauthorization. We remain committed to this goal.

Free Trade Area of the Americas

Progress on a Free Trade Area of the Americas is slow and reports from the negotiations are not encouraging. While a more limited agreement would be welcome news, discussions do not seem to be moving forward.

As stated last year before the Committee corn growers seek the following objectives: 1) overall reduction in tariff levels; 2) elimination of the use of export subsidies for trade in the Western hemisphere; 3) the phasing out of tariff-rate quotas; 4) fair administration of quotas and import permits; 5) eliminate other market access restrictions; 6) disciplines on State Trading Enterprises; 7) science-based regulations pertaining to human, animal and plant health and; 8) an expedited dispute settlement process.

Two of these objectives deserve special note. Specifically, the U.S. feed grain industry would benefit from increased access to the complex system of preferential regional and bilateral trade that has emerged in the Hemisphere. Tariff reduction, and ultimate elimination, would ensure that U.S. corn exports gain or retain access to markets on a basis comparable to that granted to other trading partners.

For example, duties between Mercosur countries are generally zero whereas members apply the common external tariff and statistical tax for imports from the United States (and other non-

member countries). For example, Argentina enjoys a 2 percent tariff for corn exports to Brazil. The comparable rate for U.S. exports is 9.5 percent. While Brazil has at times in the past announced a tariff reduction for U.S. exports due to short supplies, it remains difficult for the U.S. to compete in that region for much of the year, despite some seasonal and freight advantages.

Bilateral Economic Complementary Agreements (ECA's) also work to our disadvantage. The ECA between Chile and Mercosur members subjects corn from Argentina to a lower import duty (1.8 percent in 2003) than the United States (6 percent in 2003).¹

Such elimination of feed grain tariffs for our exports similar to those extended under regional and bilateral agreements would allow United States feed grains to compete in the Hemisphere under market conditions.

The "price band system" employed by Andean Pact countries continues to protect domestic agricultural products from imports. Under the Andean Pact's common external tariff policies, corn imports from non-member countries are subject to a fixed tariff and a variable tariff based on import prices. The complex variable tariff component keeps internal prices high when world prices are low and declines as world prices increase, effectively setting a floor on the import price of third-country products. Overall feed grain demand is dampened as domestic markets are insulated at artificially high price levels, and as a result demand for imported feed grains is diminished. The use of price bands is inconsistent with WTO rules and should be eliminated as part of the FTAA agreement.

Another top priority for corn growers is to prevent export subsidies from being used by any member. We seek a commitment from each country to refuse to accept subsidized exports from third parties. Export subsidies are the most trade distorting of government policies and severely injure efficient producers. Elimination and prohibition of future subsidies in the FTAA will not only level the playing field for agricultural commodities but also will increase pressure on the European Union to reform its export subsidies in the WTO negotiations on agriculture.

In addition, to better understand the short and long term impacts of tariff liberalization on the feed grain sector, the National Corn Growers Association has commissioned a study to examine the Free Trade Area of the Americas (FTAA). In addition, study will also examine the impacts on the HFCS and ethanol industries. We believe the study will provide critical information and help us provide good counsel to USTR and the Congress on this important issue.

Bilateral Free Trade Agreements

While the WTO negotiations and Doha Round are the top trade priority of the NCGA, we do support bilateral free trade agreements with significant and emerging trade partners. Generally, the list of candidates provide benefits to feed grain producers, but we need to ensure the Administration selects partners that represent significant future potential for economic activity and trade.

Central America Free Trade Agreement

NCGA supports the Central American Free Trade Agreement (CAFTA) and urges its speedy passage. In 2003 CAFTA countries imported 1.7 million metric tons of corn with the United

¹ Under the U.S.-Chile FTA, tariffs on corn exports drop to zero in the third year.

States supplying nearly all of that demand. With approval of the agreement, it is expected that this number will grow and likewise for the United States.

The agreement will stimulate domestic exports of corn, co-products and value-added products like gluten, distillers dried grains (DDGs), starches, oils and sweeteners as well as meat and poultry products. All tariffs on corn products (such as corn flour, corn oil, and high fructose corn syrup) will be eliminated within 15 years. Tariffs on corn gluten feed/meal and distillers dried grains will be eliminated immediately.

Import duties on yellow corn currently range from 15-35 percent in CAFTA countries – other than Costa Rica where it is 1 percent. Under the terms of the agreement, guaranteed access will total nearly over 1 million metric tons duty free.

The import duty on white corn in CAFTA countries is currently 20 percent. Under the agreement Costa Rica will drop their duty to zero. The other countries will liberalize access thru a TRQ that will grow at 2 percent per year perpetuity.

Corn usage resulting from the agreement will increase due to favorable provisions for beef, pork and poultry. Last year, over 500 million bushels were exported from the U.S. as finished meat and developing countries are a growing market for value added corn products.

It is important to note that the only two commodities that do not transition to zero are white corn and sugar. The U.S. and the Central American countries will receive comparable access on both sensitive commodities and upon implementation; the United States can ship 83,000 metric tons of white corn duty free to Central America with reciprocal access for sugar totaling 86,000 metric tons. Our organization understands the necessity of this compromise and while not ideal, we believe it important to ensure the principles and objectives of the trade agreement are met for the benefit of all sectors of the agricultural economy.

Regarding ethanol, historically, all of the Central American countries have been grouped with Caribbean countries under the Caribbean Basin Economic Recovery Act (CBERA), which created the current import rules for ethanol under the Caribbean Basin Initiative (CBI). The current rule, which has been in place since 1990, allows duty-free status to any ethanol regardless of domestic content up to 7 percent of the U.S. domestic production total. The ethanol must be dehydrated in a CBI country. An additional 35 million gallons can be imported to the US duty free if it contains 30 percent by volume indigenous feedstock. No duties are assessed on any CBI processed ethanol if it contains 50 percent by volume indigenous feedstock. Under the current rule, any country within the CBI is allowed to provide the allocation on a first available basis. In practice, at no time since the adoption of CBI in 1990, has the full volume allocation been met.

Under the CAFTA, El Salvador receives an annual country allocation of 20 million liters to be applied against the current CBI maximum of 7 percent of U.S. consumption provision for ethanol made from non-local feedstock. This 20 million liter allocation to El Salvador grows 25 percent annually, but will never exceed 10 percent of the 7 percent maximum for U.S. ethanol consumption under the CBI.

The intention of the original CBI and CAFTA provisions seeks to promote economic development, facilitate the utilization of domestic agricultural commodities and diversify the domestic economies. However, recently we learned a U.S. company intends to build a dehydration plant in El Salvador for Brazilian ethanol and ultimate transshipment into the United States.

This is of concern to the NCGA because we believe it does not meet the original intention of the provision. While legal, we believe it serves as a reminder how trade agreements can sometimes undermine the overriding goals of the agreement. When this happens, farmers and ranchers become suspicious of free trade and begin to soften their enthusiasm. This particular incident will undoubtedly have an impact throughout the countryside and we would encourage the Committee to further investigate this issue.

Dominican Republic

In mid March, the USTR announced the completion of negotiations with the Dominican Republic, integrating that country into the recently concluded CAFTA. The terms of the agreement are favorable to corn and feed grain producers and our organization applauds USTR for their efforts.

The Dominican Republic is a minor producer of feed grains, with corn and sorghum production combined totaling less than 100,000 metric tons. In recent years the country has become an important market for U.S. feed grains as imports of U.S. corn have grown to more than 1 million metric tons annually. The U.S. currently has a 100 percent share of that market, and the FTA ensures that at no time will any other competitor have a tariff advantage over the United States.

Approximately 75 percent of imported corn is used by the poultry industry, followed by the pork industry (22 percent), and the dairy industry (3 percent). Binding favorable tariff rates will ensure future U.S. feed grain imports are available to the developing livestock industries at commercial costs.

Morocco

This Morocco Free Trade Agreement promises additional access while opening market opportunities for corn and feed grain producers. Corn growers have been actively building markets in Morocco for many years. The completion of a free trade agreement between the U.S. and Morocco will further benefit U.S. feed grain exports.

Morocco's expanding poultry sector is driving the country's demand for feed grains. While poultry is the fastest growing meat production sector in Morocco, the cost of chicken meat production is one of the highest when compared to other middle-income countries. Costs to the Moroccan poultry producers will be significantly reduced through lower feed grain prices as a result of this agreement.

In 2002, the U.S. accounted for approximately 60 percent of Morocco's total corn imports. However, due to stiff competition from Latin America, the U.S. share decreased to only about 10 percent of the over 1 million metric tons Morocco imported last year. Tariff elimination will give U.S. producers and exporters significant tariff advantages over these competitors.

Australia

The Australia Free Trade Agreement offers little benefit for corn or other feed grain producers. Due to stringent Sanitary and Phytosanitary procedures, exports to Australia are cost prohibitive.

These requirements drive up the cost of U.S. corn to the point where they can only begin to be competitive in the most extreme drought conditions, such as those that existed in 2002. Even

under those marketing conditions, the U.S. was able to export 48,000 metric tons of corn. While the drought has eased, Australia will not likely be in need of imported grain in the near-term. Changes to the import requirements would allow for a greater level of opportunity for the U.S. to access the Australian market in the future. While discussion have been ongoing between the United States Department of Agriculture (USDA) and Biosecurity Australia (BA) and the Australian Quarantine and Inspection Service (AQIS), obtaining a solution is unlikely in the near future.

Furthermore, the exclusion of certain sectors within the agreement is an unfortunate precedent and should not be utilized in future negotiations. If this approach was used during the CAFTA negotiations, additional market access for corn to Central America would have been denied. Exclusions work against efforts to promote U.S. agriculture and result in trade agreements that will have long term negative consequences for the future of rural America.

Prospective Free Trade Agreements

We understand the United States Trade Representative (USTR) utilizes a variety of measures to select potential negotiating partners, but of paramount importance are the economic benefits resulting from a free trade agreement. The current list of prospective partners offers some but not a significant benefit to corn and feed grain producers. We encourage USTR to proceed cautiously to ensure agriculture benefits from future FTAs while maintaining support among farmers and ranchers.

Thailand

Thailand produces roughly 4.5 million metric tons of corn per year and consumes approximately 4.3 million metric tons. While it has imported as much as 450,000 metric tons in 1999 (none from the U.S.), it typically is a net exporter, exporting 75,000 to 400,000 metric tons per year to Association of Southeast Nations (ASEAN) countries.

Thailand's import quota in 2003 was 54,411 metric tons at a 20 percent in-quota tariff rate for shipment during March 1 – June 30, 2003. Meanwhile, the out of-quota imports are subject to a 73.8 percent tariff rate with a surcharge of 180 baht per ton. While a Free Trade Agreement (FTA) with Thailand does not represent a significant opportunity for future U.S. corn exports, preferential tariffs could allow for a competitive advantage in years that Thailand imports feed grains.

Bahrain

Bahrain generally imports less than 50,000 MT of corn per year, which typically goes through Dubai, or as a partial shipment with one of the other GCC countries. An FTA with Bahrain would yield no meaningful benefits to U.S. corn exports.

Colombia

Colombia is a developing country with 55 percent of its population living in poverty. Agriculture accounts for 13 percent of gross domestic product (GDP), and 30 percent of the labor force is involved in agricultural production. Colombian corn production has remained relatively flat in recent years, increasing from 980,000 metric tons in the 1996/1997 marketing year (MY) to an estimated 1.2 million metric tons in MY 2002/2003. Virtually all of the domestically produced corn is used for human consumption, while 95 percent of the imported yellow corn is used in the

animal feed industry, with the remainder going to wet milling for starch products. Colombian imports of U.S. corn have increased steadily over the years, from 1.3 million metric tons in MY 1996 to about 1.8 million metric tons in MY 2002, driven primarily by increased demand on the part of feed manufacturers, with most of their increased feed production going to the poultry industry. Since feed accounts for the majority of production costs, eliminating the tariff under an FTA would boost demand for U.S. corn by making it cheaper for the poultry and pork sectors to import corn and ultimately expand production.

Besides tariffs, in the past the primary policy issue affecting U.S. corn exports to Colombia was an absorption agreement tying imports of corn to purchases of the domestic corn crop. The Colombian Government maintained an agreement with the Colombian Grain Producers Federation under which licenses for imported corn were only issued if the importer had purchased domestically produced corn at an artificially high price. Under that agreement, importers were required to purchase one metric ton of domestically produced corn for every 5.2 metric tons of corn imported. While clearly WTO illegal, Colombia received a waiver under the WTO Agreement on Trade Related Investment Measures (TRIMS) for the use of this arrangement, with the waiver scheduled to expire at the end of last year. We are monitoring the situation to make sure that any alternative measure imposed to replace the absorption policy does not hamper the issuances of import licenses. Colombian corn imports are also subject to the Andean Community Price Band system.

U.S. officials report there have been no trade issues or disputes arising from biotechnology.

Sri Lanka

Sri Lanka is a very small corn market, only importing around 100,000 MT of corn imports per year. Shipment sizes are generally small, originating in India and Myanmar, or via Indonesia or Malaysia. Current tariffs on corn are only 2 percent. Thus, the potential for U.S. corn shipments to Sri Lanka are unlikely, even under an FTA.

South African Customs Union

Corn is South Africa's single most important crop, serving as a dietary staple (white corn), a source of livestock feed and an export crop. South African corn production has been volatile in recent years because of drought conditions. The two most important policy issues now affecting U.S. corn trade with South Africa are the 1) the upcoming South African Customs Union (SACU) FTA negotiations and 2) South African biotechnology policies as they related to corn imports.

A significant U.S. bilateral market access issue related to corn was addressed in 2000, when South Africa lifted previous restrictions on U.S. corn related to Stewarts Wilt, a bacterial disease that affects primarily sweet corn.

Regarding biotechnology, industry and public views in South Africa appear relatively favorable. The primary issue is the failure of some technology companies to file or finalize applications for products that may be planted in the United States. Because not all U.S. corn events have completed the registration system, corn exports from the United States have temporarily ceased. Beyond the issues of product approvals, a key to South Africa is the degree it will either influence, or be influenced by its SACU neighbors who have periodically rejected food aid or insisted it be milled before delivery.

South Africa represents a potential market for 500,000 to 750,000 metric tons of U.S. corn, with exact levels depending on the domestic production situation. Based on current South African tariff treatment of feed grains, corn should be a candidate for early or immediate tariff elimination in the negotiations. The FTA should also acknowledge the need for science-based regulatory systems for biotech approvals.

Panama & Ecuador

We are working on an analysis for both Panama and Ecuador. When complete, we intend to submit to USTR to assist their efforts to open these markets. We will be happy to make that information available to the Committee upon your request.

Future Export Opportunities

Over the past ten years, while the percentage of the U.S. corn crop exported has stabilized, we have seen a shift from traditional markets to new and developing economies. Japan remains our largest customer but compared to 1994, three of our top ten markets are new (Turkey, Dominican Republic, and Israel) and three others moved up in ranking (Mexico, Egypt and Colombia). All but Israel are considered developing economies and represent some of the most promising markets for corn growers.

For example, the Middle East Region² is heavily reliant on feed grain imports to produce livestock and poultry to satisfy its demand for protein-based animal products. In 2001-02, total corn imports by countries in the region was approximately 11.6 million metric tons, of which the United States supplied 7.7 million metric tons, or 66 percent. While imports to the region increased last year, U.S. market share dropped to 41 percent due to competition from Argentina and China. Despite this, U.S. corn imports are rising to historic levels with large purchases recently by Egypt, Israel, and others.

While many governments seek to increase production of various feed crops, the region's climate and scarce water supplies are expected to put these countries in a situation to rely even more on imports. Growth in income and population are fueling rising consumption of poultry and to a lesser extent beef, dairy and sheep products. As a result, we expect the region to be an expanding market for U.S. feed grains in the future given economic and political stability.

Although red meat, especially lamb, is the preferred meat throughout the Middle East, the production of beef and mutton has remained static over the past 6 years. The only exceptions are Turkey and Iran where beef production has declined. The decline was most dramatic in Iran where production dropped by over 22 percent. The primary reason for the steady decline is the lack of adequate pastures and roughage sources in the area. As a result, most of the consumers in the Middle East are forced to turn to poultry meat, eggs and dairy products to fulfill their requirements of animal protein. This has resulted in the growth of the poultry sector throughout the Middle East ranging from 7 to 10 percent. It is projected that this growth will be maintained over the next five years.

Population growth, coupled with increases in consumer disposable income has translated into increased demand for meat, milk and eggs, and consequently, demands for imported feed grains in the region. For example, this is reflected in Egypt's increased corn imports from 1.2 million metric tons in 1990 to 5 million metric tons in 2002. Consequently, Egypt has become our fourth

² Turkey, Syria, Jordan, Lebanon, Egypt, Israel, Saudi Arabia and the Gulf Cooperation Council countries.

largest corn market. The other countries in the region, Iran, Syria, Saudi Arabia, Turkey and Israel, are sizable markets importing nearly or more than one million metric tons of corn per year. With the exception of Israel, those are also the countries which demonstrate the most potential for growth in the livestock and poultry sectors and feed grain imports. The dynamics of this growth is illustrated by demographic changes. Nearly a third of the population in these countries is below the age of 15 years. In addition, changing eating habits of younger generations is also impacting the demand of animal products.

Future Challenges – Biotechnology

Trade issues related to biotechnology continue to be of great concern to corn producers. With 46 percent of this year's corn crop being planted to biotech varieties and the corn production industry's willingness to be early adopters of these important production and management tools, the U.S. government must do everything it can to assure that other countries are not imposing unworkable and non-tariff trade barriers to inhibit their sale to major U.S. trading partners.

We continue to monitor and watch with interest the case filed by the U.S. government against the European Union (EU) for the illegal moratorium imposed in 1998 against the approval of all new biotech products. While we welcome the progress the EU purports it is making on restarting a scientifically sound approvals process, the questions raised in the WTO case have not been addressed, and USTR should continue to urge a swift determination in our favor to end these trade distorting and illegal practices. It should be recognized that even if the moratorium is lifted, recently imposed traceability and labeling requirements, will have the net effect of continuing to unduly and illegally restrict U.S. commodity and food trade with Europe.

We believe that USTR should be actively engaged in pursuing further WTO action against the EU for these recently enacted requirements. The new regulations impose unrealistic, and non-science based, mandatory labeling, onerous paper trails to accompany shipments of bulk commodities and processed foods. Furthermore, the regulations treat processing enzymes (primarily used in the EU) differently than biotech-derived products (primarily produced from U.S. and other export country commodities). Late last year, 22 organizations representing all segments of the domestic food chain wrote Ambassador Zoellick to urge him to begin trade dispute settlement actions. We are concerned that the Administration is yet to take a decisive position regarding the new rules on the WTO case itself.

There are a number of other international forums and issues where biotech-derived product trade continues to be of concern. We, in cooperation with other organizations in the food chain, continue to urge the Administration to coordinate activities related to trade of biotechnology across agencies and with input from the private sector to develop strategies that do not result in the disruption of trade of U.S. bulk commodities and food.

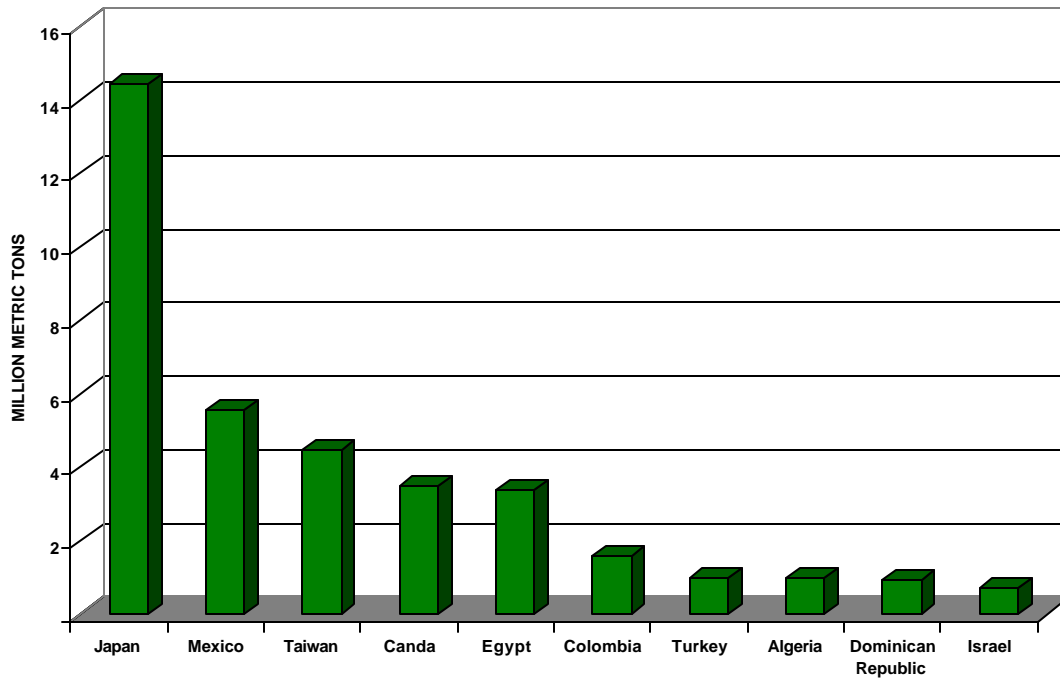
We also believe it possible negotiations can facilitate a process to harmonize approvals of products derived from biotechnology with trading partners. Asynchronous approvals already threaten to disrupt grain shipments to foreign markets and undoubtedly force delays in commercialization within the United States of new varieties that have promising agronomic and commercial value. While NCGA policy encourages technology providers to delay commercialization until major trading partners approve varieties, this is a voluntary process and one that is predicated on the regulatory process in other countries. Free trade agreements can help promote the utilization of sound science and orderly approval processes with trading partners and serve as a model for regulatory processes worldwide.

Conclusion

The future strength of the agricultural economy in the United States will depend on expanding trade opportunities. At the same time we need to continue educating farmers across the country on the benefits of trade. At times it is hard to articulate the importance when most farmers never see their grain again once it leaves the elevator and is transported by barge or train. We must do a better job communicating with our grassroots, but we need the Congress and Administration to negotiate trade agreements that allow farmers to participate on a level playing field in the international marketplace.

We look forward working with the Committee on this and other issues of importance in the future. I thank you again for the opportunity to address the Committee. I welcome your questions.

Top U.S. Corn Customers 2003



World Corn Exports - 2003/2004

